UMKHANDLU WASEKHAYA IMPENDLE

UMSEBENZI USEZANDLENI ZETHU

IMPENDLE LOCAL MUNICIPALITY

Annual Financial Statements

For the year ended 30 June 2012

General Information

Mayoral committee	
Executive Mayor	HW Cllr S.G. Ndlela (Appointed 3 June 2011)
Councillors	C.D. Gwala (26 May 2011) S. Mlaba (26 May 2011) S.M. Makhaye (26 May 2011) P. Mtolo (26 May 2011)
Grading of local authority	Grade 1 Category B
Accounting Officer	S.I. Mabaso Appointed 1 November 2011
Accounting Officer	E.X. Muthwa (Acting Municipal Manager) Appointed 2 May 2011- 29 February 2012
Chief Finance Officer (CFO)	T.G Pitout (Acting CFO) Appointed 01 May 2012
Chief Finance Officer	T.S. Khwela Appointed from 01 July 2011- 30 April 2012
Registered office	21 Mafahleni Street Impendle 3327
Business address	21 Mafahleni Street Impendle 3327
Postal address	Private Bag x512 Impendle 3227
Bankers	Amalgamated Banks of South Africa Pietermaritzburg Branch
Auditors	Auditor General South Africa
Attorneys	Govindasamy, Ndzingi and Govender Attorneys Inc.
Website	Impendle.local.gov.za
Contact Numbers	033 996 0771

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The reports and statements set out below comprise the annual financial statements presented to the Council:

Abbreviations

AGSA	Auditor General South Africa
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
VAT	Value Added Tax

Legislation

The following legislations were taken into account during the preparation of the Financial Statements: Constitution of the Republic of South Africa 1996, Municipal Systems Act 32 of 2000, Municipal Finance Management Act 56 of 2003, Municipal Property Rates Act 6 of 2004, Municipal Structures Act 117 of 1998 and Division of Revenue Act.

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The Auditor General is engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledge that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer have reviewed the municipality's cash flow forecast for the period ending 30 June 2012 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is largely dependent on the grant allocations through the Division of revenue act (DORA) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Impendle Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's Chief Finance Officer.

The Auditor General is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the Auditor General and their report is presented on page 4.

The annual financial statements set out on pages 4 to 40, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2012 and were signed on its behalf by:

Accounting Officer
SI MABASO Municipal Manager
(Appointed 1November 2011)

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Trade and other receivables	9	142,710	114,767
VAT receivable	10	4,183,108	2,185,873
Prepayments	8	66,050	-
Consumer debtors	11	477,897	395,623
Cash and cash equivalents	12	15,685,329	5,047,129
		20,555,094	**7,743,392**
Non-Current Assets			
Investment property	4	7,800,000	6,064,610
Property, plant and equipment	5	36,692,793	26,225,855
Intangible assets	6	250,242	310,848
		44,743,035	**32,601,313**
Total Assets		**65,298,129**	**40,344,705**
Liabilities			
Current Liabilities			
Loans from economic entities- Short term	7	401,155	401,155
Trade and other payables	16	478,463	148,635
Unspent conditional grants and receipts	14	16,740,318	4,055,470
Provisions	15	1,734,407	986,282
		19,354,343	**5,591,542**
Non-Current Liabilities			
Loans from economic entities- Long term	7	1,051,080	1,452,235
Total Liabilities		**20,405,423**	**7,043,777**
Net Assets		**44,892,706**	**33,300,928**
Net Assets			
Accumulated surplus		44,892,706	33,300,928

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Rendering of services		28,830	15,708
Property rates	18	629,360	777,379
Service charges	19	38,570	36,280
Rental of facilities and equipment		188,407	157,720
Fines		4,925	6,531
Licences and permits		24,866	14,072
Government grants & subsidies	20	36,024,119	26,900,083
Fees earned		-	6,000
Commissions received		-	11,092
Other income		171,181	855,554
Sale of Property		-	1,974
Indemnity		-	500
Fax & printing		-	6,681
Sundry receipts		-	3,103
Interest received - investment	25	949,059	522,446
Total Revenue		**38,059,317**	**29,315,123**
Expenditure			
Salaries and wages	23	(11,632,445)	(9,566,416)
Remuneration of councillors	24	(1,352,378)	(1,038,014)
Transfer payments		(3,150)	-
Depreciation and amortisation	26	(2,026,372)	(1,296,880)
Impairment loss/ Reversal of impairments		(43,186)	(15,021)
Finance costs	27	(173,626)	(212,508)
Debt impairment		-	(553,018)
Collection costs		(1,896)	-
Repairs and maintenance		(1,704,247)	(944,443)
Contracted services	29	(318,833)	(400,822)
Grant funded expenditure	30	(1,218,634)	(3,600,407)
General Expenses	22	(9,184,916)	(6,725,328)
Total Expenditure		**(27,659,683)**	**(24,352,857)**
Surplus for the year		**10,399,634**	**4,962,266**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	**28,338,662**	**28,338,662**
Changes in net assets		
Surplus for the year ended 30 June 2011	4,962,266	4,962,266
Total changes	4,962,266	4,962,266
Opening balance as previously reported	33,300,928	33,300,928
Balance at July 01, 2011 as restated	**33,300,928**	**33,300,928**
Changes in net assets		
Fair value gains, net of tax: Land and buildings	1,192,144	1,192,144
Net income (losses) recognised directly in net assets	1,192,144	1,192,144
Surplus for the year ended 30 June 2012	10,399,634	10,399,634
Total recognised income and expenses for the year ended 30 June 2012	11,591,778	11,591,778
Total changes	11,591,778	11,591,778
Balance at June 30, 2012	**44,892,706**	**44,892,706**

Note(s)

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Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Grants and subsidies received		43,024,119	23,043,201
Interest income		949,059	522,446
		43,973,178	23,565,647
Payments			
Employee costs		(11,987,797)	(10,604,430)
Suppliers		(7,753,265)	(8,589,604)
Finance costs		(173,626)	(212,508)
		(19,914,688)	(19,406,542)
Net cash flows from operating activities	31	**24,058,490**	**4,159,105**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(12,339,397)	(6,393,620)
Purchase of other intangible assets	6	(93,307)	(24,335)
Non cash items		(586,432)	13,868
Net cash flows from investing activities		**(13,019,136)**	**(6,404,087)**
Cash flows from financing activities			
Loan (payments) / receipts		(401,154)	(319,091)
Net increase/(decrease) in cash and cash equivalents		**10,638,200**	**(2,564,073)**
Cash and cash equivalents at the beginning of the year		5,047,129	7,611,202
Cash and cash equivalents at the end of the year	12	**15,685,329**	**5,047,129**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note First-time adoption of Standards of GRAP.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value of trade receivable and payable are assumed to approximate their fair values.

Impairment testing

The recoverable (service) amounts of individual assets and cash-generating units have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

1.1 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives of property, plant and equipment and intangible assets

The minicipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and intangible assets. This estimate is based on the condition and use of the individual assets, in order to determine the remaining period over which the asset can and will be used.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Accounting Policies

1.2 Mergers (continued)

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an item of property, plant and equipment is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Accounting Policies

1.3 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life in years
Buildings	30
Plant and machinery	10 - 15
Furniture and fixtures	10
Motor vehicles	5 - 7
Office equipment	
• Computer Hardware	4
• Office Machines	3 - 5
IT equipment	4
Computer software	3 - 5
Infrastructure	15
Community	
• Sports Fields	30
• Security Measures 3	3
• Security Measures 5	5
Communication equipment	5
Other property, plant and equipment	
• Kitchen Equipment	5
• Routes	30

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Accounting Policies

1.4 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period, residual value, if any, and the amortisation method for intangible assets are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

The useful lives of intangible assets have been assessed as follows:

Item	Useful life
Computer software	3 - 5 years

Intangible assets are derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the intangible asset. Such difference is recognised in surplus or deficit when the intangible asset is derecognised.

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - designated
- Loans and receivables

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

Accounting Policies

1.5 Financial instruments (continued)

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at .

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends and interest.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment in other comprehensive income and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to (from) economic entities

These include loans to and from controlling entities, follow controlled entities, controlled entities, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

Receivables from exchange transactions

1.5 Financial instruments (continued)

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

1.5 Financial instruments (continued)

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rent is recognised separately as an expense when paid or payable and are not straight-lined over the lease term.

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Accounting Policies

1.7 Impairment of cash-generating assets (continued)

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.8 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.9 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.10 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.11 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.12 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.13 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.14 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.15 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Presentation of currency

These annual financial statements are presented in South African Rand.

1.19 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

Accounting Policies

1.20 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

1.21 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.22 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following.

- Standard of GRAP

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidation and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after Reporting Date
GRAP 16	Investment Property
GRAP 17	Properties, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 23	Revenue from Non Exchange Transactions
GRAP 24	Presentation of Budget Information in the Financial Statements
GRAP 100	Non current assets Held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2012 is as follows:

Statement of financial position

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

[If retrospective application is impracticable for a particular prior period, or for periods before those presented, disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.]

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

3.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	April 01, 2013	

3.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 01, 2012 or later periods:

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after April 01, 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

An Municipality should present comparison of the budget amounts for which is held publicity accountable and actual amounts either as a separate additional financial statements or as additional budget columns in the financial statements currently presented in accordance with standards of GRAP. The comparison of budget amounts shall presents separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

- Restoration cost approach
- Service units approach

The effective date of the standard is for years beginning on or after April 01, 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits:

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after April 01, 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

The effective date of the standard is for years beginning on or after April 01, 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

3.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 01, 2012 or later periods but are not relevant to its operations:

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

4. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	7,800,000	-	7,800,000	6,064,610	-	6,064,610

Reconciliation of investment property - 2012

	Opening balance	Fair value adjustments	Total
Investment property	6,064,610	1,735,390	7,800,000

Reconciliation of investment property - 2011

	Opening balance	Fair value adjustments	Total
Investment property	3,239,670	2,824,940	6,064,610

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

When the municipality's policy is to subsequently measure investment property on the cost model, when the municipality cannot determine the fair value of the investment property reliably, the municipality must disclose:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie.

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	3,927,273	-	3,927,273	3,927,273	-	3,927,273
Buildings	4,440,355	(2,134,012)	2,306,343	4,440,355	(1,766,950)	2,673,405
Plant and machinery	2,827,113	(619,021)	2,208,092	2,827,113	(429,704)	2,397,409
Furniture and fixtures	1,284,926	(535,179)	749,747	961,367	(420,468)	540,899
Motor vehicles	965,409	(696,572)	268,837	965,409	(542,522)	422,887
Office equipment	271,473	(142,566)	128,907	247,173	(97,144)	150,029
IT equipment	796,079	(399,562)	396,517	557,603	(234,510)	323,093
Infrastructure	8,922,195	(1,800,081)	7,122,114	8,922,194	(1,205,268)	7,716,926
Community	7,056,980	(423,570)	6,633,410	4,838,810	(130,904)	4,707,906
Communication equipment	128,305	(120,832)	7,473	128,305	(94,018)	34,287
Minor plant	12,924,691	-	12,924,691	3,314,405	-	3,314,405
Other property, plant and equipment	43,899	(24,510)	19,389	34,340	(17,004)	17,336
Total	**43,588,698**	**(6,895,905)**	**36,692,793**	**31,164,347**	**(4,938,492)**	**26,225,855**

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Land	3,927,273	-	-	3,927,273
Buildings	2,673,405	-	(367,062)	2,306,343
Plant and machinery	2,397,409	-	(189,317)	2,208,092
Furniture and fixtures	540,899	238,606	(29,758)	749,747
Motor vehicles	422,887	-	(154,050)	268,837
Office equipment	150,029	24,300	(45,422)	128,907
IT equipment	323,093	238,476	(165,052)	396,517
Infrastructure	7,716,926	-	(594,812)	7,122,114
Community	4,707,906	2,218,170	(292,666)	6,633,410
Communication equipment	34,287	-	(26,814)	7,473
Minor plant	3,314,405	9,610,286	-	12,924,691
Other property, plant and equipment	17,336	9,559	(7,506)	19,389
	26,225,855	**12,339,397**	**(1,872,459)**	**36,692,793**

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Depreciation	Total
Land	3,927,273	-	-	-	-	-	-	3,927,273
Buildings	2,507,257	31,317	-	400,000	-	-	(265,169)	2,673,405
Plant and machinery	2,037,530	186,090	-	365,614	-	-	(191,825)	2,397,409
Furniture and fixtures	635,317	3,450	(1,904)	-	-	-	(95,964)	540,899
Motor vehicles	1,359,949	-	-	(765,586)	18,000	-	(189,476)	422,887
Office equipment	135,256	28,009	-	-	31,006	(5,334)	(38,908)	150,029
IT equipment	264,812	171,477	(1,086)	-	(9,840)	-	(102,270)	323,093
Infrastructure	1,482,788	921,410	-	5,480,731	-	-	(168,003)	7,716,926
Community	661,855	2,197,252	-	1,929,612	-	-	(80,813)	4,707,906
Communication equipment	67,679	3,329	-	-	-	-	(36,721)	34,287
Minor plant	7,874,468	2,850,308	-	(7,410,371)	-	-	-	3,314,405
Other property, plant and equipment	23,079	978	-	-	-	-	(6,721)	17,336
	20,977,263	**6,393,620**	**(2,990)**	**-**	**39,166**	**(5,334)**	**(1,175,870)**	**26,225,855**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

6. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	563,135	(312,893)	250,242	494,164	(183,316)	310,848

Reconciliation of intangible assets - 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Intangible assets (continued)

	Opening balance	Additions	Amortisation	Total
Computer software	310,848	93,307	(153,913)	250,242

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	407,518	24,335	(121,005)	310,848

7. Loans to (from) economic entities

8. Prepayments

9. Trade and other receivables

	2012	2011
Other receivables	122,696	114,767
Staff debtors	20,014	-
	142,710	**114,767**

10. VAT receivable

	2012	2011
VAT	4,183,108	2,185,873

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

11. Consumer debtors

	2012	2011
Gross balances		
Rates	541,930	416,470
Less: Provision for debt impairment		
Rates	(64,033)	(20,847)
Net balance		
Rates	477,897	395,623
Rates		
Current (0 - 30 days)	53,515	251,050
31 - 60 days	45,871	111,231
61 - 90 days	39,004	25,640
91 - 120 days	23,920	28,549
121 - 150 days	18,400	-
151 - 180 days	22,016	-
+ 181 days	339,204	-
Sub-total	541,930	416,470
Less: Provision for doubtfule debts	(64,033)	(20,847)
	477,897	**395,623**

Reconciliation of debt impairment provision

	2012	2011
Balance at beginning of the year	(20,847)	-
Contributions to provision	(43,186)	(20,847)
	(64,033)	**(20,847)**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Cash and cash equivalents

Cash and cash equivalents consist of:

	2012	2011
Cash on hand	10,000	10,000
Bank balances	13,953,845	889,893
Short-term deposits	1,721,484	4,147,236
	15,685,329	**5,047,129**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	June 30, 2011		30 June 2012	June 30, 2011	
Absa - Current - 407-624-0270	14,031,481	2,329,368	-	13,953,845	889,893	-
Standard Bank - Current - 250-361-698	-	283,729	-	-	283,997	-
Standard Bank - Current- 253-535-751	10,756	-	-	10,756	10,586	-
Standard Bank- Cureent- 636-864-901	367,441	-	-	367,441	353,139	-
Standard Bank- Current- 636-863-484	122,117	-	-	122,117	117,411	-
Standard Bank- Current- 636-863-476	189,353	-	-	189,354	182,019	-
Standard Bank- Current-03788101-246-000-003	-	-	-	-	2,479,966	-
Absa Bank- Current-207-186-1728	377,228	-	-	377,228	-	-
Fnb-Current-622-484-15607	654,588	-	-	654,588	-	-
Total	**15,752,964**	**2,613,097**	-	**15,675,329**	**4,317,011**	-

13. Loan

	2012	2011
Minimum loan payments due		
- within one year	401,155	401,155
- in second to fifth year inclusive	1,051,080	1,452,235
Present value of minimum lease payments	**1,452,235**	**1,853,390**
Present value of minimum lease payments due		
Non-current liabilities	1,051,080	1,452,235
Current liabilities	401,155	401,155
	1,452,235	**1,853,390**

The Municipality has acquired a loan with Absa Bank in August 2010 at flat interest rate of 10.3% for a period five years.

The monthly repayment amounts to R47898.36.

Interest rates are fixed at the contract date. All loan have fixed repayments

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

14. Unspent conditional grants and receipts (continued)

Unspent conditional grants and receipts

	2012	2011
Free Basic Electricity Grant	98,602	-
Sport and Recreation Grant	150,000	-
Small Town Rehabilation Grant	4,517,587	-
Housing Fund Grant	678,911	700,277
Electrification Grant	4,948,166	-
Milling Grant	4,217,730	1,136,342
Municipal Infrustructure Grant	2,129,322	2,218,851
	16,740,318	**4,055,470**

Movement

	2012	2011
Balance at the beginning	4,055,470	5,967,762
Additions	29,830,033	9,285,361
Income recognition	(17,145,185)	(11,197,653)
	16,740,318	**4,055,470**

These amounts are invested in a ring-fenced investment until utilised.lRevenue is only recognised from these conditional grants once all conditions relating to expenditure are fulfilled.

15. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Landfill Site Provision	-	302,500	-	302,500
Audit Fees	400,000	547,784	(447,784)	500,000
Leave pay provisions	586,282	449,173	(103,548)	931,907
	986,282	**1,299,457**	**(551,332)**	**1,734,407**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Audit Fees	255,411	457,995	(313,406)	400,000
Leave pay provisions	546,353	605,234	(565,305)	586,282
	801,764	**1,063,229**	**(878,711)**	**986,282**

16. Trade and other payables

	2012	2011
Trade payables	336,667	148,635
Other payables	141,796	-
	478,463	**148,635**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Revenue

Rendering of services	28,830	15,708
Property rates	629,360	777,379
Service charges	38,570	36,280
Rental of facilities and equipment	188,407	157,720
Fines	4,925	6,531
Licences and permits	24,866	14,072
Government grants and subsidies	36,024,119	26,900,083
	36,939,077	**27,907,773**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Rendering of services	28,830	15,708
Service charges	38,570	36,280
Rental of facilities an equipment	188,407	157,720
Licences and permits	24,866	14,072
	280,673	**223,780**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	629,360	777,379
Fines	4,925	6,531
Transfer revenue		
Levies	36,024,119	26,900,083
	36,658,404	**27,683,993**

18. Property rates

Rates received

Residential property	75,577	71,344
Commercial property	94,559	89,263
State property	-	143,758
Municipal	152,287	-
Small holdings and farms	429,344	405,298
Industrial	17,540	16,558
Multi-purpose	73,768	69,537
Property rates 3	-	-
Less: Income forgone	(213,715)	(18,379)
	629,360	**777,379**

19. Service charges

Refuse removal	38,570	36,280

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Government grants and subsidies

	2012	2011
Municipal System Improvement Grant	790,000	750,000
Electrification Grant	937,834	678,000
Municipal Infrastructure Grant	8,960,529	6,312,158
Small Town Rehabilitation Grant	1,782,413	-
Library services	-	-
Housing Funds	81,800	112,215
Governance Grant	-	59,439
Finance Management Grant	1,500,000	1,250,000
Free Basic Electricity Grant	955,748	-
Equitable share	18,877,650	16,386,660
DBSA Grant	-	566,872
Milling Grant	1,918,612	363,658
Arts and Culture Grant	219,533	421,081
	36,024,119	**26,900,083**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. During 2009/2010, the municipality had R1 200 000 on Municipal Infrastructure Grant which was withheld by National Treasury during 2011/2012 financial year. This amount was witheld againt 2011/2012 equitable share.

Municipal Infrastructure Grant (MIG)

	2012	2011
Balance unspent at beginning of year	2,218,851	5,124,009
Current-year receipts	8,871,000	3,407,000
Conditions met - transferred to revenue	(8,960,528)	(6,312,158)
	2,129,323	**2,218,851**

Conditions still to be met - remain liabilities

There is still work in progress amounting to R2 129 323.

Conditions
This grant is to be used for Infrastructure development only.

Transfers
The grant was transferred by National Treasury

Focus
The grant is intended to provide specific capital finance for basic municipal infrastructure backlogs for poor households to micro-enterprises and social institutions servicing poor communities.

Implementation
As at 30 June 2012 road projects were approximately 82% complete

Municipal System Improvement Grant (MSIG)

	2012	2011
Balance unspent at beginning of year	-	-
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(750,000)
	-	-

All conditions were met.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Government grants and subsidies (continued)

Conditions
This grant is to be used for municipal system improvement

Transfers
The grant was transferred by National Co-operative Governance and Traditional Affairs (COGTA)

Focus
The focus of this grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act, 2000 and related legislations and policies.

Implementation
As at 30 June 2012 system enhancement was 100% complete

Housing Funds Grant

	2012	2011
Balance unspent at beginning of year	700,278	784,314
Conditions met - transferred to revenue	(81,049)	(112,215)
Interest received	59,683	28,179
	678,912	**700,278**

All conditions were met

Conditions
This grant is to be used to finance the preliminary stage of housing development

Transfers
The grant was transferred by the Housing Department

Focus
The focus was to finance the preliminary stage of housing development

Implementation
The municipality made an application to use this money towards the salary of the newly appointed Housing Officer

Sport and Recreation Grant

	2012	2011
Balance unspent at beginning of year	-	-
Current-year receipts	150,000	-
Conditions met - transferred to revenue	-	-
Other	-	-
	150,000	**-**

Governance Grant

	2012	2011
Balance unspent at beginning of year	-	59,439
Conditions met - transferred to revenue	-	(59,439)
	-	-

The municipality has applied to the COGTA to use the remaining savings on the grant

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Government grants and subsidies (continued)

Conditions
This grant is to be used for the development of systems and procedures of the municipality

Transfers
The grant was transferred by National Co-operative Governance and Traditional Affairs (COGTA)

Focus
The focus was to assist the municipality to draw effective systems and procedures

Implementation
As at 30 June 2012 implementation was 100% complete

Milling Grant

	2012	2011
Balance unspent at beginning of year	1,136,342	1,500,000
Current-year receipts	5,000,000	-
Conditions met - transferred to revenue	(1,918,612)	(363,658)
	4,217,730	**1,136,342**

Conditions still to be met - remain liabilities (see note 14)

Electrification Grant

	2012	2011
Current-year receipts	5,886,000	678,000
Conditions met - transferred to revenue	(937,834)	(678,000)
	4,948,166	-

Conditions still to be met - remain liabilities (see note 14)

This is used to implement the intergrated national electrification by providing capital subsidies to Eskom to address the electrification backlog of permanently occupied dwellings, the installation of bulk insfrastructure and rehabilitation of electrification infrastructure.

Finance Management Grant

	2012	2011
Balance unspent at beginning of year	-	-
Current-year receipts	1,500,000	1,250,000
Conditions met - transferred to revenue	(1,500,000)	(1,250,000)
	-	-

All conditions were met

Conditions
This grant is to be used to finance the cost of training finance interns, training, buying assets for finance department

Transfers
The grant was transferred by National Treasury

Focus
The focus of this grant is to promote and support reforms of financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

Implementation
As at 30 June 2012 implementation was 100% complete

Free Basic Electrification Grant

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Government grants and subsidies (continued)

Balance unspent at beginning of year	-	-
Current-year receipts	1,054,350	819,300
Conditions met - transferred to revenue	(955,748)	(819,300)
	98,602	-

Conditions still to be met - remain liabilities (see note 14.

Conditions
This grant is to be used to provide monthly subsidy of 50kW free to indegent people.

Transfers
The grant was transferred by National Treasury

Focus
The focus was to assist the municipality subsidise indegent people in the community

Implementation
As at 30 June 2012 implementation was 90% complete

Library Grant

Balance unspent at beginning of year	-	-
Current-year receipts	219,533	421,081
Conditions met - transferred to revenue	(219,533)	(421,081)
	-	-

All conditions were met.

Conditions
This grant is to be used to transform urban and rural community library infrastructure facilities and services through a recapitalised programme of provincial level in support of local government and national initiatives.

Transfers
The grant was transferred by Provincial Library Department
Focus
The focus was to assist the municipality to finance the salary of the Cyber Cadet
Implementation
As at 30 June 2012 implementation was 100% complete

21. Other revenue

Tender fees	-	6,000
Commissions received	-	11,092
Rates certificates	171,181	855,554
Sale of property	-	1,974
Indemnity	-	500
Fax and printing	-	6,681
Sundry receipts	-	3,103
	171,181	**884,904**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

22. General expenses

Advertising	148,195	149,466
Auditors fees	447,784	77,762
Bank charges	83,242	39,006
Cleaning	3,171	4,068
Consulting and professional fees	57,485	28,636
Consumables	110,512	29,102
Entertainment	-	30,000
Community development and training	-	57,304
Conferences and seminars	83,643	142,588
IT expenses	298,329	92,177
Lease rentals on operating lease	215,600	-
Motor vehicle licence fees	6,822	9,875
Fuel and oil	530,331	384,047
Printing and stationery	224,115	133,224
Protective clothing	75,994	41,645
Repairs of landfill site	302,500	-
Staff welfare	31,886	96,629
Subscriptions and membership fees	14,418	187,272
Telephone and fax	516,735	467,909
Training	757,826	300,839
Travel - local	667,593	200,152
Electricity	1,268,585	1,107,824
Tourism development	14,398	-
Bargaining council	3,262	3,461
IDP Review	242,887	173,742
Library Projects	106,535	381,506
LED Business plans and strategy	7,698	124,999
Art tourism culture	93,234	103,029
Children support	46,944	48,978
Elderly support	117,611	130,120
HIV- Health	23,000	34,600
Poverty eleviation	55,878	186,925
Project management	207,408	263,976
TV licenses	1,910	1,525
Other expenses	2,419,385	1,692,942
	9,184,916	**6,725,328**

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011

23. Employee related costs

Basic	9,711,394	8,205,674
Bonus	487,577	332,547
Medical aid - company contributions	223,246	167,279
UIF	58,920	51,054
SDL	107,587	61,728
Post-employment benefits - Pension - Defined contribution plan	557,721	514,546
Overtime payments	190,036	83,750
Housing benefits and allowances	27,864	34,637
Cellphones	268,100	115,201
	11,632,445	**9,566,416**

Remuneration of municipal manager

Annual Remuneration	332,962	449,933
Car Allowance	80,000	110,000
Other	-	-
Telephone	16,000	45,544
Acting Allowance	161,600	-
	590,562	**605,477**

Remuneration of chief finance officer

Annual Remuneration	412,270	457,720
Car Allowance	-	16,483
Telephone	8,000	9,600
Other	-	4,606
	420,270	**488,409**

Remuneration of corporate services manager

Annual Remuneration	393,959	371,502
Car Allowance	102,700	102,700
Telephone	9,600	9,600
Other	-	26,180
	506,259	**509,982**

Remuneration of technical manager

Annual Remuneration	496,659	474,203
Telephone	9,600	9,600
Other	-	4,606
	506,259	**488,409**

24. Remuneration of councillors

Executive Major	265,237	135,841
Councillors	1,087,141	902,173
	1,352,378	**1,038,014**

In-kind benefits

The Mayor is not full-time. He is provided with an office, cellphone, 3g mordem and a laptop at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. Remuneration of councillors (continued)

The Mayor has two full-time mayoral aids sourced from municipal security department .

25. Investment revenue

Interest revenue		
Unlisted financial assets	-	29,314
Bank	932,220	493,132
Interest charged on trade and other receivables	16,839	-
	949,059	**522,446**

26. Depreciation and amortisation

Property, plant and equipment	2,026,372	1,296,880

27. Finance costs

Non-current borrowings	173,626	212,508

28. Auditors' remuneration

Fees	447,784	77,762

29. Contracted services

Specialist Services	318,833	400,822

Contracted services were for services rendered by Chubb, Nashua, Minolta

30. Grants and subsidies paid

Other subsidies		
Electrification Project	937,834	1,486,296
Municipal System Improvement Grant	-	750,000
Governance Grant	-	59,439
Finance Management Grant	199,000	1,192,457
Housing Ward 2	39,750	26,070
Housing Ward 3	29,550	33,920
Housing Ward 4	12,500	52,225
	1,218,634	**3,600,407**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

31. Cash generated from operations

Surplus	10,399,634	4,962,266
Adjustments for:		
Depreciation and amortisation	2,026,372	1,296,880
Impairment deficit	43,186	15,021
Debt impairment	-	553,018
Movements in provisions	748,125	184,518
Inventories		
Trade and other receivables	(27,943)	99,416
Consumer debtors	(82,274)	(565,351)
Prepayments	(66,050)	-
Trade and other payables	329,827	(1,166,080)
VAT	(1,997,235)	691,709
Unspent conditional grants and receipts	12,684,848	(1,912,292)
	24,058,490	**4,159,105**

32. Commitments

Authorised capital expenditure

Capital and operating committement as at 30 June 2012

• Capital programmes	9,514,584	5,848,145
• Operating Programmes	1,272,775	357,410
	10,787,359	**6,205,555**

This committed expenditure relates to property and will be financed by Municipal Infrastructure Grant and Small Town Rehabilitation Grant.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	215,600	-
- in second to fifth year inclusive	960,400	-
	1,176,000	-

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

33. Related parties

There were no related party transaction for the financial period.

34. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

35. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure in respect of interest and penalties due to late payments	64,488	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

36. Irregular expenditure

Add: Irregular Expenditure - current year	711,850	1,854,518

Analysis of expenditure awaiting condonation per age classification

Technical Department Engineers - Irregular expenditure due to contracted services providers continue to render services after the contract have expired	357,410	-
- Road contraction was awarded a tender with out following SCM procedures	-	1,418,000
Mig Contractor - Irregular expenditure due to contractor awarding a contractor who did not disclose that they are in the employ of the state.	354,440	-
Performance management consulting - Member of the audit committee was awarded a tender without follow SCM procedures	-	55,579
VAT recovery - A supplier was awarded a tender with out following SCM procedures	-	264,249
FMS upgrade - A supplier was awarded a tender with out following SCM procedures	-	116,690
	711,850	**1,854,518**

37. Actual operating expenditure versus budgeted operating expenditure

A comparison of budget amounts and actual amounts are presented as a separate additional Annexure A presented in accourdance with GRAP Standards. The comparison of the budget and actual amounts presents separately each level of legeslative oversight: the approved and final budget amounts; the actual amounts on a comparables basis; and by the way of note disclosure, the explaination of differences betweeen the budget and the actual amounts are documented in Annexure A.

38. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Notes to the Annual Financial Statements

Figures in Rand

39. Statement of comparative and actual information

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR IMPENDLE LOCAL MUNICIPALITY PERIOD ENDING 30 JUNE 2012

	CURRENT YEAR 2012 ACTUALS	ADJUSTMENT BUDGET	CURRENT YEAR 2012 ADJUSTED BUDGET	VARIENCE RAND	VAR %	EXPLANATION OF SIGNIFICANT VARIENCES GREATER THAN 10%
REVENUE						
Service Charges	721,625.00	5,000.00	1,002,677.00	(281,052.00)	-28%	Customer reluctance and economy of Impendle hindering settlement of debts
Interest Received on Investment	949,059.00	150,000.00	500,000.00	449,059.00	90%	Invested more moneys than anticipated and interest rate was good
Government Grant Revenue	36,024,119.00	13,697,000.00	52,659,471.00	(16,635,352.00)	-32%	Grant revenue received in full but due to GRAP standards, Income is recognised once Expenditure has occurred.included are grants from the province which were received after the budget was finalised.
Rental Income	188,407.00		154,721.00	33,686.00	22%	Increase in rental income due to high collection drive ie door to door visits
Other Income	176,106.00		3,578,395.00	(3,402,289.00)	-95%	Budgeted more than we anticipated however, some votes have excelled in relation to yearly budget collection. Own funded income of R3,4m included from previous years
TOTAL INCOME	**38,059,316.00**	**13,852,000.00**	**57,895,264.00**	**(19,835,948.00)**		

	CURRENT YEAR 2012 ACTUALS	ADJUSTMENT BUDGET	CURRENT YEAR 2012 ADJUSTED BUDGET	VARIENCE RAND	VAR %	EXPLANATION OF SIGNIFICANT VARIENCES GREATER THAN 10%
EXPENDITURE						
Salaries and Wages	(11,632,445.00)	(1,018,000.00)	(11,096,787.00)	(535,658.00)	5%	Due to MEC approval of 5% of 100% budgeted for in Decmeber 2011.
Remuneration of Councillors	(1,352,378.00)	-	(1,566,645.00)	214,267.00	-14%	Actual budget for the year was 6%
Transfer Payments	(3,150.00)	(115,000.00)		(3,150.00)		Transfer from IEC paid to disabled organisation not budget for
Depreciation and Amortisation	(2,026,372.00)		(1,100,000.00)	(926,372.00)	84%	Halls and creches commenced previous year and current year that has been completed, transferred to main asset category
Impairment Loss/Reversal of Impairments				-		
Debt Impairment				-		
Collection Costs	(1,896.00)			(1,896.00)		Collection of Impendle Village title deed information from PMB Deeds Office
Finance Costs	(173,626.00)			(173,626.00)		
Impairment Loss/Reversal of Impairments	(43,186.00)			(43,186.00)		
Repairs and Maintenance	(1,704,247.00)		(1,574,030.00)	(130,217.00)	8%	
Contracted Services	(318,833.00)		(400,000.00)	81,167.00	-20%	Yearly escalation from service providers which were not consistent with municipal yearly estimate
Grant Funded Expenditure	(1,218,634.00)		(28,771,330.00)	27,552,696.00	-96%	Expenditure low due to major percentage of grant expenditure treated as work in progress and transferred to assets in the balance sheet. Breakdown of Opex and Capex budget to be done in future
General Expenses	(9,184,916.00)		(13,386,472.00)	4,201,556.00	-31%	Expenditure items not planned/budgeted for according to municipal procurement plan, not actioned
		14,985,000.00				
TOTAL PAYMENTS	**(27,659,683.00)**	**13,852,000.00**	**(57,895,264.00)**	**30,235,581.00**	**(0.64)**	
NET RECEIPT/(PAYMENTS)	**10,399,633.00**	-	-	**10,399,633.00**		

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